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SUBJECT: ZELAYA THREATENS TO NATIONALIZE POWER COMPANIES

REF: A. (A) 08 TEGUCIGALPA 991
[1](#)B. (B) 08 TEGUCIGALPA 526
[1](#)C. (C) 08 TEGUCIGALPA 452

Classified By: AMBASSADOR HUGO LLORENS; E.O. 12958; REASON 1.4(B)AND (D)
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[1](#)1. (C) Summary: In response to simmering public discontent over the high cost of electricity, President Manuel "Mel" Zelaya has threatened to nationalize the private companies that supply about 60 percent of the nation's power. Congress has attempted to preempt the President by introducing a bill requiring the National Electric Company (ENEE) to lower its rates in line with the recent drop in fuel prices. The bill would also require ENEE to conduct a year-long feasibility study on acquiring private power plants. Zelaya accused Congress President (and fellow Liberal Party member) Roberto Micheletti of trying to ruin Liberal Party candidate Elvin Santos' presidential bid. Micheletti in turn blasted Zelaya's nationalization proposal as "communism." End summary.

[1](#)2. (C) President of the National Congress Roberto Micheletti proposed a bill March 23 that would force the National Electric Company (ENEE) to reduce rates 8 to 12 percent. ENEE raised rates sharply in 2008 to close an operating deficit that at one point was estimated by the World Bank to be USD 300 million a year -- about 3 percent of GDP. Amid public outrage, largely from the business sector, earlier this year, ENEE committed to lower the rates in response to the sharp drop in fuel oil prices (Honduras generates about 60 percent of its electricity from heavy fuel oil) that followed the onset of the global recession. But the cost of electricity to consumers did not come down.

[1](#)3. (C) According to Congresswoman Marcia Facusse de Villeda (protect), Micheletti introduced his bill after some members of Congress were briefed confidentially about a plan by the President's office to nationalize the private power plants. (Note: Two private companies, controlled by tycoons Fredy Nasser and the Kafie Brothers, provide the bulk of thermal power generation in Honduras from heavy fuel oil under contracts negotiated in the mid-90s with the government of President Carlos Roberto Reina. These contracts have been widely criticized for years as usurious. End note.) Villeda said Congress moved quickly to preempt the executive proposal by mandating a rate cut and, in the same bill, calling for ENEE to conduct a year-long study on the feasibility of running the thermal plants. Congress felt vindicated when the Minister of the Presidency, Enrique Flores Lanza, presented the nationalization proposal the evening of March 24, but with amended language to give a "just price" to current owners of the power plants.

[1](#)4. (C) ENEE Director Rixi Moncada developed the plan to nationalize the plants because of a flaw in the contracts

that stipulates ENEE must pay for all repairs and fixed costs of the plants. These fixed costs totaled USD 115 million in 2008, before the generation of the first kilowatt-hour of electricity. The press quotes Moncada as saying this money could be used instead to finance the purchase of the plants, which would then provide energy to Honduras at-cost. The chief engineer of ENEE, Percy Buck, told the Embassy that owning the plants would save ENEE money but that the reduction in rates proposed by Congress would effectively put the brakes on any infrastructure improvements that were planned within the 2009 budget.

15. (U) Industrial and commercial associations generally support a reduction in electricity rates during a time of economic crisis but have strongly opposed the nationalization plan. Micheletti is quoted in the press as saying, "nationalization of the thermal plants sounds and looks like communism." Zelaya, meanwhile, has publicly denounced the preemptive move by Congress. He defended Moncada for her work in trying to control ENEE's massive losses and called Micheletti's proposal a "populist" ploy that would cause Elvin Santos to lose the presidential elections.

16. (C) Comment: Santos, Zelaya's former vice president, defeated Micheletti last November for the Liberal Party nomination to succeed Zelaya in 2010. Santos and Micheletti have since reconciled; it is unlikely that Micheletti would do anything to harm Santos' campaign. An impetuous nationalization of private power plants, regardless of the inequities in their power supply contracts, would send a strongly negative signal to potential investors that Honduras is not open for business. The debates about these two proposals will be taken up again after Holy Week, which ends April 12. The Embassy will monitor and report on any significant developments. End comment.
LLORENS